

CITY OF CARTER LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2015

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City of Carter Lake

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gerald Waltrip	Mayor	January 2018
Edward Aldmeyer	Council Member	January 2016
Barb Hawkins	Council Member	January 2016
Dave Huey	Council Member	January 2016
Ron Cumberledge	Council Member	January 2018
Barbara Melonis	Council Member	January 2018
Doreen Mowery	Clerk/Treasurer	January 2016
Lisa Ruehle	Deputy Clerk	Indefinite
Joe Thornton	Attorney	January 2016



Diane McGrain, CPA
Jim Menard, CPA

November 16, 2015

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Continued...

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November 16, 2015
City of Carter Lake
Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As disclosed in Note 4 to the financial statements, City of Carter Lake adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Carter Lake's basic financial statements. We previously audited the financial statements for the five years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the four years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Continued...

November 16, 2015
City of Carter Lake
Independent Auditors' Report

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City's Contributions on pages 7 through 12 and 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of the City of Carter Lake's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carter Lake's internal control over financial reporting and compliance.

Schroeder & Associates, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Carter Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities increased approximately \$2,009,000 from fiscal year 2014 to 2015. Capital grants increased approximately \$1,147,000, and other general receipts increased \$780,000.
- Disbursements of the City's governmental activities increased approximately \$1,071,000 from fiscal year 2014 to fiscal year 2015.
- The City's total cash basis net position increased by approximately \$938,000 from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities increased approximately \$780,000 and the cash basis net position of the business type activities increased by \$158,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year, and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitation resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water works, the sanitary sewer system, garbage, storm sewer and post office activities. These activities are financed primarily by user charges.

Fund Financial Statements

The city has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Water, Sewer, Garbage, Storm Sewer, and Village Post Office funds.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, by approximately \$780,000 to approximately \$2,881,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 238	\$ 292
Operating grants, contributions and restricted interest	673	677
Capital grants, contributions and restricted interest	1,307	160
General receipts:		
Property tax	1,630	1,585
Tax increment financing	414	372
Local option sales tax	567	471
Other city tax	457	500
Grants and contributions not restricted to specific purposes	5	5
Unrestricted interest on investments	1	1
Other general receipts	780	-
Total receipts	<u>6,072</u>	<u>4,063</u>
Disbursements:		
Public safety	1,155	1,221
Public works	433	385
Culture and recreation	700	699
Community and economic development	106	163
General government	487	389
Debt service	1,097	865
Capital projects	1,314	499
Total disbursements	<u>5,292</u>	<u>4,221</u>
Change in cash basis net position	780	(158)
Cash basis net position beginning of year	<u>2,101</u>	<u>2,259</u>
Cash basis net position end of year	<u>\$ 2,881</u>	<u>\$ 2,101</u>

Total governmental activities receipts for the fiscal year were approximately \$6,072,000 compared to \$4,063,000 last year. This increase was due to an increase in capital grants and general obligation note proceeds net of refunding escrow deposits.

The cost of all governmental activities this year was approximately \$5,292,000, compared to \$4,221,000 last year.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 669	\$ 661
Sewer	696	678
Garbage	87	79
Storm sewer	12	102
Village post office	23	14
General receipts:		
Other city tax	26	-
Total receipts	<u>1,513</u>	<u>1,534</u>
Disbursements:		
Water	461	519
Sewer	704	526
Garbage	145	118
Storm sewer	24	54
Village post office	21	17
Total disbursements	<u>1,355</u>	<u>1,234</u>
Change in cash basis net position	158	300
Cash basis net position beginning of year	<u>1,422</u>	<u>1,122</u>
Cash basis net position end of year	<u>\$ 1,580</u>	<u>\$ 1,422</u>

Total business type activities charges for services receipts for the fiscal year were approximately \$1,513,000 compared to approximately \$1,534,000 last year. The cash balance increased approximately \$158,000 from the prior year. Receipts were down approximately \$21,000 due to stopping the collection of storm sewer fees. Disbursements increased approximately \$121,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of \$2,880,817, an increase of \$779,873 from last year's balance of \$2,100,944. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$889,691 to \$1,915,562. The increase was due to general obligation note proceeds of \$779,823.
- The Special Revenue, Road Use Tax Fund increased \$171,898 to \$424,445. The increase was due to reallocation of excess LOST funds after debt payments to street construction.
- The Debt Service Fund decreased \$267,567 to \$75,666. The decrease was due to general obligation refunding note proceeds of \$3,406,564 net of payments to escrow of \$3,726,685 to refund the old debt.
- The Capital Projects Fund decreased \$69,172 to a cash balance of (\$75,385). The decrease was due to expenses paid for PVS Capital Project that were billed and received after 6/30/15 year end.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$220,935 to \$591,623 due to the cost of water from supplier (MUD) was \$116,000 less than anticipated. \$122,500 was budgeted for infrastructure repairs and hydrants. The repairs were not made and the hydrants were not purchased.
- The Enterprise, Sewer Fund cash balance increased \$5,042 to \$586,083. \$200,000 was budgeted for infrastructure repairs and expenses were only \$155,500.
- The Enterprise, Garbage Fund cash balance decreased \$58,056 to \$310,757. The Council chose to reduce the amount of cash reserve in the fund so rates do not cover expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in disbursements of \$5,356,795. The increase was primarily to budget for expenses related to the refunding of old debt.

The City receipts were \$200,438 less than budgeted. Owen Industry (PVS) funds of \$296,239 had been expended and billed to the DOT and PVS, but not received by year end. Also hotel/motel tax came in \$45,400 less than anticipated.

With the amendment, total disbursements were \$5,251,730 less than budgeted. Capital expenditures were less than budgeted.

DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$6,660,000 in long-term debt outstanding, compared to approximately \$6,445,000 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)			
		Year ended June 30,	
		2015	2014
General obligation notes	\$	6,660	\$ 3,165
Local option sales tax revenue bonds		-	3,280
	\$	<u>6,660</u>	<u>\$ 6,445</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding debt of approximately \$6,660,000 is below its constitutional debt limit of approximately \$10 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Carter Lake's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for various City activities.

Several new businesses have located in Carter Lake. Over time, the City should see increased revenues in property tax, local option sales tax, building permits, and utility billings generated by the new businesses.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Doreen Mowery, City Clerk, 950 Locust Street, Carter Lake, Iowa 51510.

City of Carter Lake
Basic Financial Statements

City of Carter Lake
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2015

					Net (Disbursement) Receipts and Changes in Cash Basis Net Position		
Program Receipts							
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:	Disbursements	Service	Interest	Interest			
Governmental activities:							
Public safety	\$ 1,154,841	125,430	48,974	-	(980,437)	-	(980,437)
Public works	432,515	47,639	393,574	-	8,698	-	8,698
Culture and recreation	699,649	58,514	51,430	-	(589,705)	-	(589,705)
Community and economic development	106,070	-	4,065	-	(102,005)	-	(102,005)
General government	487,413	6,782	173,589	-	(307,042)	-	(307,042)
Debt service	1,097,593	-	1,043	-	(1,096,550)	-	(1,096,550)
Capital projects	1,314,031	-	-	1,307,440	(6,591)	-	(6,591)
Total governmental activities	5,292,112	238,365	672,675	1,307,440	(3,073,632)	-	(3,073,632)
Business type activities:							
Water	461,049	669,056	-	-	-	208,007	208,007
Sewer	704,167	696,282	-	-	-	(7,885)	(7,885)
Garbage	145,145	87,089	-	-	-	(58,056)	(58,056)
Storm sewer	24,510	12,043	-	-	-	(12,467)	(12,467)
Village post office	20,788	23,160	-	-	-	2,372	2,372
Total business type activities	1,355,659	1,487,630	-	-	-	131,971	131,971
Total	\$ 6,647,771	1,725,995	672,675	1,307,440	(3,073,632)	131,971	(2,941,661)
General Receipts:							
Property tax levied for:							
General purposes					1,084,457	25,855	1,110,312
Employee benefits					398,502	-	398,502
Debt service					146,675	-	146,675
Tax increment financing					413,700	-	413,700
Local option sales tax					567,609	-	567,609
Other city tax					457,507	-	457,507
Grants and contributions not restricted to specific purpose					4,438	-	4,438
Unrestricted interest on investments					794	-	794
General obligation note proceeds					4,186,387	-	4,186,387
Payments to escrow for refunding notes					(3,406,564)	-	(3,406,564)
Total general receipts					3,853,505	25,855	3,879,360
Change in cash basis net position					779,873	157,826	937,699
Cash basis net position beginning of year					2,100,944	1,421,686	3,522,630
Cash basis net position end of year					\$ 2,880,817	1,579,512	4,460,329
Cash Basis Net Position							
Restricted:							
Expendable:							
Streets					\$ 424,445	-	424,445
Debt service					75,666	-	75,666
Other purposes					540,529	-	540,529
Unrestricted					1,840,177	1,579,512	3,419,689
Total cash basis net position					\$ 2,880,817	1,579,512	4,460,329

See notes to financial statements.

City of Carter Lake
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2015

		Special Revenue			Other	
		Road	Debt	Capital	Nonmajor	
	General	Use	Service	Projects	Governmental	Total
		Tax			Funds	
Receipts:						
Property tax	\$ 1,084,457	-	146,675	-	398,502	1,629,634
Tax increment financing	-	-	-	-	413,700	413,700
Other city tax	529,956	207,712	108,067	-	179,381	1,025,116
Licenses and permits	41,494	-	-	-	-	41,494
Use of money and property	11,234	-	1,043	-	89	12,366
Intergovernmental	39,768	393,574	-	812,225	-	1,245,567
Charges for service	115,686	-	-	-	1,640	117,326
Special assessments	1,089	-	-	-	-	1,089
Miscellaneous	287,412	-	-	495,215	23,243	805,870
Total receipts	2,111,096	601,286	255,785	1,307,440	1,016,555	5,292,162
Disbursements:						
Operating:						
Public safety	941,161	-	-	-	213,680	1,154,841
Public works	3,127	429,388	-	-	-	432,515
Culture and recreation	612,053	-	-	-	87,596	699,649
Community and economic development	-	-	-	-	106,070	106,070
General government	444,887	-	-	-	42,526	487,413
Debt service	-	-	1,097,593	-	-	1,097,593
Capital projects	-	-	-	1,314,031	-	1,314,031
Total disbursements	2,001,228	429,388	1,097,593	1,314,031	449,872	5,292,112
Excess (deficiency) of receipts over (under) disbursements	109,868	171,898	(841,808)	(6,591)	566,683	50
Other financing sources (uses):						
General obligation note proceeds	779,823	-	3,406,564	-	-	4,186,387
Payments to escrow for refunding notes	-	-	(3,406,564)	-	-	(3,406,564)
Operating transfers in	-	-	574,241	-	62,581	636,822
Operating transfers out	-	-	-	(62,581)	(574,241)	(636,822)
Total other financing sources (uses)	779,823	-	574,241	(62,581)	(511,660)	779,823
Change in cash balances	889,691	171,898	(267,567)	(69,172)	55,023	779,873
Cash balances beginning of year	1,025,871	252,547	343,233	(6,213)	485,506	2,100,944
Cash balances end of year	\$ 1,915,562	424,445	75,666	(75,385)	540,529	2,880,817
Cash Basis Fund Balances						
Restricted for:						
Streets	-	424,445	-	-	-	424,445
Debt service	-	-	75,666	-	-	75,666
Other purposes	-	-	-	-	540,529	540,529
Unassigned	1,915,562	-	-	(75,385)	-	1,840,177
Total cash basis fund balances	\$ 1,915,562	424,445	75,666	(75,385)	540,529	2,880,817

See notes to financial statements.

City of Carter Lake
Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
Proprietary Funds
As of and for the year ended June 30, 2015

	Enterprise Funds				
	Water	Sewer	Garbage	Nonmajor Proprietary Funds	Total
Operating receipts:					
Charges for service	\$ 652,253	696,282	87,089	35,203	1,470,827
Miscellaneous	16,803	-	-	-	16,803
Total operating receipts	669,056	696,282	87,089	35,203	1,487,630
Operating disbursements:					
Business type activities	461,049	704,167	145,145	45,298	1,355,659
Excess (deficiency) of operating receipts over (under) operating disbursements	208,007	(7,885)	(58,056)	(10,095)	131,971
Non-operating receipts:					
Other city tax	12,928	12,927	-	-	25,855
Change in cash balances	220,935	5,042	(58,056)	(10,095)	157,826
Cash balances beginning of year	370,688	581,041	368,813	101,144	1,421,686
Cash balances end of year	\$ 591,623	586,083	310,757	91,049	1,579,512
Cash Basis Fund Balances					
Unrestricted	\$ 591,623	586,083	310,757	91,049	1,579,512

See notes to financial statements.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies

The City of Carter Lake is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1930 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, garbage and storm sewer utilities and a Village Post Office for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Carter Lake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City (primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Blended Component Unit

The Carter Lake Smoke Eaters is legally separate from the City but is so intertwined with the City that it is in substance, the same as the City. It is reported as part of the City and blended into Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Pottawattamie County Assessor's Conference Board and the Pottawattamie County Joint E911 Service Board.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general and local option sales tax long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through proprietary funds.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Garbage Fund accounts for the collection and disbursement of garbage collection fees and landfill fees.

C. Measurement Focus and Basis of Accounting

The City of Carter Lake maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the general government function.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2013, to compute the amounts which became liens on property on July 1, 2014. These taxes were due and payable in two installments on September 30, 2014 and March 31, 2015, at the Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (2) Cash and Pooled Investments - Continued

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ending June 30,	General Obligation Bonds & Notes	
	Principal	Interest
2016	\$ 715,000	195,637
2017	730,000	176,123
2018	750,000	168,566
2019	765,000	139,665
2020	775,000	119,536
2021-2025	1,155,000	416,822
2026-2030	905,000	280,100
2031-2034	865,000	88,200
	<u>\$ 6,660,000</u>	<u>1,584,649</u>

Interest costs paid during the year ended June 30, 2015 totaled \$190,219.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$10 million which was not exceeded during the year ended June 30, 2015.

General Obligation Capital Loan Notes

On March 31, 2015, the City issued \$775,000 in general obligation capital loan notes with an interest rate of 2% to pay costs of acquiring and equipping a new fire truck and improving and equipping the existing fire station.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (3) Bonds and Notes Payable – Continued

General Obligation Local Option Sales and Service Tax Refunding Capital Loan Notes

On March 31, 2015, the City issued \$3,260,000 general obligation refunding notes with interest rates ranging from 2.00% to 4.00% per annum. A total of \$3,726,685, which includes the refunding note proceeds of \$3,406,564, was placed in escrow to help refund \$3,280,000 Local Option Sales and Service Capital loan notes issued July 1, 2008. The old debt has a final call date of June 1, 2018. The escrow balance of \$3,608,576, and the refunded debt outstanding of \$3,225,000 at June 30, 2015, are not reflected in the City's financial statements.

The City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$552,000.

NOTE (4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (4) Pension Plan - Continued

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$121,999.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$334,373. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0084245 percent, which was a decrease of 0.0051430 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$46,168, \$25,378 and \$312,542 respectively.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (4) Pension Plan - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above. Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (4) Pension Plan - Continued

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 1,005,736	\$ 334,373	\$ (231,945)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2015, primarily relating to the General Fund and Proprietary Funds are as follows:

Type of Benefit	Amount
Vacation	\$ 44,000
Sick leave	101,000
Compensatory time	12,000
	<u>\$ 157,000</u>

This liability is computed on rates of pay effective as of June 30, 2015.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (6) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The city's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2015 were \$106,514.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (6) Risk Management - Continued

The City does not disclose a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Urban Renewal Tax Increment	Capital Projects	62,581
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	407,273
	Local Option Sales Tax	166,968
		<u>574,241</u>
		\$ <u><u>636,822</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

City of Carter Lake
Notes to Financial Statements
June 30, 2015

NOTE (8) Development and Rebate Agreements

The City entered into development and rebate agreements during the years ended June 30, 2004, and June 30, 2014, to assist in urban renewal projects. The City agreed to rebate incremental tax paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plans.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount rebated each year shall represent 50% of the incremental property tax received by the City, not to exceed total projected costs of \$294,000. During the year ended June 30, 2015, the City paid the developer \$15,724.

In accordance with the fiscal year 2014 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated up to project costs of \$14,000,000 for a period not to exceed fifteen years beginning with the tax year in which the property tax on the completed value of the improvements is first paid.

NOTE (9) Deficit Balance

The Capital Projects Fund has a deficit balance of \$75,385 at June 30, 2015. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of project funding.

NOTE (10) Construction Commitments

In June 2013, the City signed a construction contract for Owens Metals Center public improvements for \$1,334,485. The City has a remaining commitment of \$259,308 on the contract. This includes a retainage of \$58,732. The City was awarded RISE (Revitalize Iowa's Sound Economy Program) funds for \$815,291 to help finance the project and is being reimbursed by the developer for the remainder of the costs.

Other Information

City of Carter Lake
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,629,634	-	-	1,629,634	1,619,158	1,623,031	6,603
Tax increment financing collections	413,700	-	-	413,700	393,515	406,496	7,204
Other city tax	1,025,116	25,855	-	1,050,971	980,678	914,105	136,866
Licenses and permits	41,494	-	-	41,494	49,365	50,965	(9,471)
Use of money and property	12,366	-	-	12,366	19,949	25,449	(13,083)
Intergovernmental	1,245,567	-	-	1,245,567	1,147,279	2,162,961	(917,394)
Charges for service	117,326	1,470,827	89	1,588,064	1,714,863	1,513,834	74,230
Special assessments	1,089	-	-	1,089	1,500	1,500	(411)
Miscellaneous	805,870	16,803	19,178	803,495	110,942	288,477	515,018
Total receipts	5,292,162	1,513,485	19,267	6,786,380	6,037,249	6,986,818	(200,438)
Disbursements:							
Public safety	1,154,841	-	17,935	1,136,906	1,289,099	1,967,971	831,065
Public works	432,515	-	-	432,515	426,504	452,551	20,036
Health and social services	-	-	-	-	-	3,000	3,000
Culture and recreation	699,649	-	-	699,649	912,058	835,889	136,240
Community and economic development	106,070	-	-	106,070	108,452	117,729	11,659
General government	487,413	-	-	487,413	375,070	471,159	(16,254)
Debt service	1,097,593	-	-	1,097,593	857,423	4,596,712	3,499,119
Capital projects	1,314,031	-	-	1,314,031	579,144	1,516,408	202,377
Business type activities	-	1,355,659	-	1,355,659	1,656,900	1,600,026	244,367
Total disbursements	5,292,112	1,355,659	17,935	6,629,836	6,204,650	11,561,445	4,931,609
Excess (deficiency) of receipts over (under) disbursements	50	157,826	1,332	156,544	(167,401)	(4,574,627)	4,731,171
Other financing sources, net	779,823	-	-	779,823	-	4,248,413	(3,468,590)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	779,873	157,826	1,332	936,367	(167,401)	(326,214)	1,262,581
Balances beginning of year	2,100,944	1,421,686	30,947	3,491,683	3,253,893	3,522,630	(30,947)
Balances end of year	\$ 2,880,817	1,579,512	32,279	4,428,050	3,086,492	3,196,416	1,231,634

See accompanying independent auditors' report.

City of Carter Lake
Notes to Other Information – Budgetary Reporting
June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,356,795. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amount budgeted in the general government function.

City of Carter Lake
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
(In Thousands)
Other Information
Year ended June 30, 2015

City's proportion of the net pension liability	0.008425 %
City's proportionate share of the net pension liability	\$ 334
City's covered-employee payroll	\$ 1284
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	26.01%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Carter Lake
Schedule of City Contributions
Iowa Public Employees' Retirement System
Last Six Fiscal Years
(In Thousands)
Other Information

	2015	2014	2013	2012	2011	2010
Statutorily required contribution	\$ 122	121	125	115	98	92
Contributions in relation to the statutorily required contribution	122	121	125	115	98	92
Contribution deficiency (excess)	\$ -	-	-	-	-	-
City's covered-employee payroll	\$ 1,294	1,284	1,344	1,308	1,218	1,215
Contributions as a percentage of covered-employee payroll	9.43%	9.42%	9.28%	8.81%	8.10%	7.63%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Carter Lake
Notes to Other Information – Pension Liability
Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Carter Lake
Schedule of Cash Receipts, Disbursements and Changes
in Cash Balances – Nonmajor Governmental Funds
As of and for the year ended June 30, 2015

	Special Revenue						Total
	Local Option Sales Tax	Employee Benefits	Urban Renewal Tax Increment	Police Forfeitures	Info USA CEBA Grant	Carter Lake Smoke Eaters	
Receipts:							
Property tax	\$ -	398,502	-	-	-	-	398,502
Tax increment financing	-	-	413,700	-	-	-	413,700
Other city tax	166,968	12,413	-	-	-	-	179,381
Use of money and property	-	-	-	-	-	89	89
Changes for services	-	-	-	1,640	-	-	1,640
Miscellaneous	-	-	4,065	-	-	19,178	23,243
Total receipts	166,968	410,915	417,765	1,640	-	19,267	1,016,555
Disbursements:							
Operating:							
Public safety	-	195,053	-	692	-	17,935	213,680
Culture and recreation	-	87,596	-	-	-	-	87,596
Community and economic development	-	-	106,070	-	-	-	106,070
General government	-	42,526	-	-	-	-	42,526
Total disbursements	-	325,175	106,070	692	-	17,935	449,872
Excess of receipts over disbursements	166,968	85,740	311,695	948	-	1,332	566,683
Other financing sources (uses):							
Operating transfers in	-	-	62,581	-	-	-	62,581
Operating transfers out	(166,968)	-	(407,273)	-	-	-	(574,241)
Total other financing sources (uses)	(166,968)	-	(344,692)	-	-	-	(511,660)
Change in cash balances	-	85,740	(32,997)	948	-	1,332	55,023
Cash balances beginning of year	-	157,892	255,560	3,085	38,022	30,947	485,506
Cash balances end of year	\$ -	243,632	222,563	4,033	38,022	32,279	540,529
Cash Basis Fund Balances							
Restricted for other purposes	\$ -	243,632	222,563	4,033	38,022	32,279	540,529

See accompanying independent auditors' report.

City of Carter Lake
Schedule of Cash Receipts, Disbursements and Changes
in Cash Balances – Nonmajor Enterprise Funds
As of and for the year ended June 30, 2015

	Enterprise Funds		
	Storm Sewer	Village Post Office	Total
Operating receipts:			
Charges for service	\$ 12,043	23,160	35,203
Operating disbursements:			
Business type activities	<u>24,510</u>	<u>20,788</u>	<u>45,298</u>
Change in cash balances	(12,467)	2,372	(10,095)
Cash balances beginning of year	<u>103,561</u>	<u>(2,417)</u>	<u>101,144</u>
Cash balances end of year	\$ <u><u>91,094</u></u>	<u><u>(45)</u></u>	<u><u>91,049</u></u>
 Cash Basis Fund Balances			
Unrestricted	\$ <u><u>91,094</u></u>	<u><u>(45)</u></u>	<u><u>91,049</u></u>

See accompanying independent auditors' report.

City of Carter Lake
Schedule of Indebtedness
Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Refunded During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:										
Capital loan	Jul 1, 2008	4.25-4.60%	\$ 1,055,000	\$ 835,000	-	110,000	-	725,000	36,225	-
Capital loan	Dec 16, 2010	2.00-2.75%	3,520,000	2,330,000	-	430,000	-	1,900,000	53,023	-
Capital loan	Mar 31, 2015	2.00%	775,000	-	775,000	-	-	775,000	-	-
Capital loan refunding	Mar 31, 2015	2.00-4.00%	3,260,000	-	3,260,000	-	-	3,260,000	17,158	-
				<u>\$ 3,165,000</u>	<u>4,035,000</u>	<u>540,000</u>	<u>-</u>	<u>6,660,000</u>	<u>106,406</u>	<u>-</u>
Local option sales tax revenue bonds										
	Jul 1, 2008	4.375-5.50%	\$ 3,580,000	\$ 3,280,000	-	-	3,280,000	-	83,813	-

See accompanying independent auditors' report.

City of Carter Lake
Bond and Note Maturities
June 30, 2015

General Obligation Notes									
Year Ending June 30,	Capital Loan Issued Jul 1, 2008		Capital Notes Issued Dec 16, 2010		Capital Notes Issued Mar 31, 2015		Refunding Notes Issued Mar 31, 2015		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2016	4.25%	\$ 115,000	2.00%	\$ 365,000	2.00%	\$ 100,000	2.00%	\$ 135,000	\$ 715,000
2017	4.25%	115,000	2.10%	370,000	2.00%	105,000	2.00%	140,000	730,000
2018	4.30%	120,000	2.30%	380,000	2.00%	110,000	2.00%	140,000	750,000
2019	4.40%	120,000	2.50%	390,000	2.00%	110,000	2.00%	145,000	765,000
2020	4.50%	120,000	2.75%	395,000	2.00%	115,000	2.00%	145,000	775,000
2021	4.60%	135,000	-	-	2.00%	115,000	2.00%	150,000	400,000
2022	-	-	-	-	2.00%	120,000	2.00%	155,000	275,000
2023	-	-	-	-	-	-	2.00%	155,000	155,000
2024	-	-	-	-	-	-	3.00%	160,000	160,000
2025	-	-	-	-	-	-	3.00%	165,000	165,000
2026	-	-	-	-	-	-	3.25%	170,000	170,000
2027	-	-	-	-	-	-	3.25%	175,000	175,000
2028	-	-	-	-	-	-	4.00%	180,000	180,000
2029	-	-	-	-	-	-	4.00%	185,000	185,000
2030	-	-	-	-	-	-	4.00%	195,000	195,000
2031	-	-	-	-	-	-	4.00%	205,000	205,000
2032	-	-	-	-	-	-	4.00%	210,000	210,000
2033	-	-	-	-	-	-	4.00%	220,000	220,000
2034	-	-	-	-	-	-	4.00%	230,000	230,000
		<u>\$ 725,000</u>		<u>\$ 1,900,000</u>		<u>\$ 775,000</u>		<u>\$ 3,260,000</u>	<u>\$ 6,660,000</u>

See accompanying independent auditors' report.

City of Carter Lake
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts:										
Property tax	\$ 1,629,634	1,585,241	1,506,200	1,474,829	1,433,556	1,291,412	1,371,397	1,338,413	1,481,188	1,289,066
Tax increment financing collections	413,700	372,163	574,767	1,058,673	1,057,294	761,192	666,705	560,164	572,962	376,635
Other city tax	1,025,116	971,119	984,878	894,542	894,876	769,810	917,368	690,569	711,146	497,691
Licenses and permits	41,494	49,307	30,017	30,298	29,197	50,960	44,228	38,214	41,134	46,467
Use of money and property	12,366	15,284	33,997	37,894	43,098	48,866	92,497	97,277	137,870	61,782
Intergovernmental	1,245,567	683,464	1,307,197	1,278,206	1,678,490	634,227	469,175	678,524	685,306	438,881
Charges for service	117,326	141,472	107,353	123,256	139,293	157,437	99,001	74,234	87,682	49,911
Special assessments	1,089	1,550	6,697	8,176	10,640	11,390	17,121	64,153	-	536
Miscellaneous	805,870	244,399	264,389	335,159	189,750	164,185	182,892	274,683	133,945	109,978
Total	\$ 5,292,162	4,063,999	4,815,495	5,241,033	5,476,194	3,889,479	3,860,384	3,816,231	3,851,233	2,870,947
Disbursements:										
Operating:										
Public safety	\$ 1,154,841	1,221,019	1,195,821	1,290,383	1,149,328	1,035,862	1,020,330	1,097,329	919,725	872,856
Public works	432,515	385,319	402,563	408,739	355,473	345,078	486,637	516,466	405,487	319,333
Health and social services	-	-	-	-	9,835	14,007	14,522	10,065	9,951	980
Culture and recreation	699,649	699,579	752,507	710,323	746,306	847,624	788,197	800,422	609,128	588,453
Community and economic development	106,070	163,358	217,701	600,566	528,421	541,819	462,331	578,678	-	-
General government	487,413	389,453	426,793	1,146,590	413,717	352,446	302,792	324,096	293,986	265,849
Debt service	1,097,593	864,612	869,284	837,908	4,065,438	528,124	674,988	385,815	421,965	339,194
Capital projects	1,314,031	498,726	408,827	1,032,791	3,120,468	1,386,595	3,198,281	650,395	1,559,200	301,409
Total	\$ 5,292,112	4,222,066	4,273,496	6,027,300	10,388,986	5,051,555	6,948,078	4,363,266	4,219,442	2,688,074

See accompanying independent auditors' report.

City of Carter Lake



Diane McGrain, CPA
Jim Menard, CPA

November 16, 2015

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Carter Lake's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Carter Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Carter Lake's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Carter Lake's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued...

City of Carter Lake
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carter Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Carter Lake's Responses to Findings

City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Carter Lake's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Carter Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Shree & Associates, PC

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2015

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were reported.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2015

Part II: Other Findings Related to Statutory Reporting:

II-A-15 Certified Budget

Comment – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-15 Questionable Disbursements

Comment - We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979. However, we noted certain disbursements that may not meet the requirements of public purpose since the public benefits to be derived have not been clearly documented and the disbursements appeared to be for private individuals. The City Clerk refused to sign the checks for these disbursements.

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Schildberg Construction	Rock on private property	\$ 1,248
Briggs, Inc.	Water supplies for private business	\$ 13
Backlund Plumbing	Sewer repair on private property	\$ 3,505

Recommendation – The City Council should determine and document the public purpose served by these disbursements. If this practice is continued, the City should establish written policies and procedures including the requirement for proper documentation and consulting legal opinion.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

II-C-15 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2015

Part II: Other Findings Related to Statutory Reporting - Continued:

II-D-15 Business Transactions

Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

Dave Huey, Council Member Owner of CD, LLC	Training	\$ <u>255</u>
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In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with one of the council members does not appear to represent a conflict of interest since the transactions with the individual were less than \$1,500 during the fiscal year.

II-E-15 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-15 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-15 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-15 Revenue Bonds and Notes

No instances of noncompliance with the revenue note and bond resolutions were noted.

II-I-15 Excess Balances

Comment – The balances in the Enterprise – Water, Garbage and Storm Sewer Accounts at June 30, 2015, were in excess of each fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We reduced the garbage fees charged during a prior year. We are maintaining balances in other accounts for anticipated repairs and to establish a 25% reserve for anticipated annual disbursements. We are reviewing this annually at budget time.

Conclusion – Response accepted.

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2015

Part II: Other Findings Related to Statutory Reporting - Continued:

II-J-15 Inactive Capital Projects

Comment – The Capital Projects Funds – Avenue H account is inactive.

Recommendation – The City should make the appropriate transfer to close the account.

Response – The City plans to use the Avenue H account in the future to repair the road and costs would be absorbed at that time.

Conclusion – Response accepted.

II-K-15 Financial Condition

Comment – The Capital Projects Fund had a deficit balance of \$75,385 and the Enterprise Village Post Office Fund had a deficit of \$45 at June 30, 2015.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The deficit in the Capital Projects Fund was due to construction cost incurred prior to receipt of project funding. The deficit balance in the Village Post Office Fund is due to the fact that we have an average of \$3,000 of stamps on hand which are not reflected in the cash basis of accounting.

Conclusion – Response accepted.

II-L-15 Annual Urban Renewal Report

The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.